MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2012

General Information

Mayoral committee

Mayor	MUTAVHATSINDI FD	
Acting Municipal Manager	E L MUGARI	
Speaker	L.B MOGALE	
Chief Whip	LUDERE R	
Councillors	KENNEALY A	MATUMBA MT
	UNDERWOOD J P	MUTELE TM
	MASHIMBYE P F	RATSHIVHOMBELA MQ
	SINYOSI S M	MAHANI MG
	RATSHIKUNI D	BALOYI SR
	THANDAVHATHU N R	HLABIOA MM
	MACHETHE MS	NDZOVELA NG
	MADAVHU FF	LUDUVHUNGU VS
	MAMOROBELA TP	NELUVHOLA AT
	JOOMA ZA	MASUKA S
	NEMAFHOHONI MG	NETSHIVHULANA TP
	MMBADI TA	MADZIVHANDILA MR
	MATODZI AM	SAKHWARI I
	MUNYAI NS	SELEPE MR
	MAGADA MR	MULOVHEDZI MD
	MALANGE TM	MUTAVHATSINDI FD
	MALIMA ME	NGOBENI NE
	NDWAMMBI MT	RIKHOTSO FJ
	MAZIBUKO MP	HLONGWANI FB
	MATHAVHA HF	MAPHALA OS
	MATHOMA MP	MAKHUBELA RT
	MADZHIGA FN	MATUMBA NJ
	TSHILAMBYANA MS	BALOYI J
	MAKHUVHA VS	MACHOVANI RG
	CHILILO NF	MUKHAHA A J
	DAVHANA ND	DU PLOOY A
	MAMAFHA TC	MBOYI MD
	MALANGE R	TSHAVHUYO TG
	BALIBALI N P	REKHOTSO SM
	KUTAMA N	NETSIANDA MW
	MAMATSIARI MS	RAMABULANA VC
	GABARA MJ	NESENGANI TP
	SHANDUKANI MJ	MASHAMBA NTL
	MAPHAHLA AZ	MASHAU TRV
	MUKHARI MF	LOWANE LB
	MAHLADISA SV	MAJOSI HM
	MAMAFHA TJ	MOLEMA SA
	RASIMPHI MP	BUNGENI M S
	HLUNGWANI KA	MUKHARI S T
	MTHOMBENI SZ	MASAKONA M C
	LUDERE EH	LERULE MM
	AHMED MO	MATHALISE LM
	RAMUDZULI SD	

Grading of local authority	Grade 4
Acting Chief Finance Officer	P G Mapheto
Registered office	Corner Krogh and Erasmus Street Makhado 0920

General Information

Business address	Corner Krogh and Erasmus Street Makhado 0920
Postal address	Private Bag X2596 Makhado 0920
Auditors	Auditor General (S.A)
Bankers	First National Bank Account number (62308329988) Branch code (250655)
Preparer	The annual financial statements were internally compiled by: PG Mapheto

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The reports and statements set out below comprise the annual financial statements presented to the Council of Makhado Local Municipality:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Authority's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the municipality to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the accounting officer endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the management is primarily responsible for the financial affairs of the municipality, they are supported by the Independent consultants where relevant.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 46, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

31/08/2012

E L Mugari
Acting Municipal Manager

Statement of Financial Position

Figures in Rand	Note	2012	2011
Assets			
Current Assets			
Inventories	2	3 558 629	4 551 282
Current portion of receivables	3	-	31 462
Receivables from exchange transactions	4	46 780 971	26 009 282
Other receivables from non-exchange transactions	5	70 780 280	63 799 537
Prepayments	6	66 171	-
Cash and cash equivalents	7	15 198	35 890
		121 201 249	**94 427 453**
Non-Current Assets			
Investment property	8	52 386 825	604 753
Property plant and equipment	9	1 720 012 825	1 604 607 856
Intangible assets	10	20 907	27 887
		1 772 420 557	**1 605 240 496**
Total Assets		**1 893 621 806**	**1 699 667 949**
Liabilities			
Current Liabilities			
Borrowings	11	1 807 413	1 615 355
Finance lease liability	12	5 398 224	3 463 437
Payables from exchange transactions	13	161 024 705	148 914 869
VAT payable	14	10 804 333	8 729 996
Current portion of unspent conditional grants and receipts	15	36 130 084	24 379 638
Provisions	18	5 098 959	4 878 689
Consumer deposits	16	10 087 699	8 986 408
Bank overdraft	7	6 237 768	2 349 492
		236 589 185	**203 317 884**
Non-Current Liabilities			
Borrowings	11	10 245 861	13 062 819
Finance lease liability	12	28 748 206	58 748 483
Defined benefit obligation	17	12 231 850	11 704 617
Provisions	18	5 423 952	5 051 505
		56 649 869	**88 567 424**
Total Liabilities		**293 239 054**	**291 885 308**
Net Assets		**1 600 382 752**	**1 407 782 641**
Net Assets			
Revaluation reserve	39	971 850 538	655 325 337
Accumulated surplus		628 532 214	752 457 304
Total Net Assets		**1 600 382 752**	**1 407 782 641**

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue			
Property rates	23	34 836 428	32 108 479
Service charges	24	222 333 139	186 682 562
Rental of facilities and equipment		357 495	309 026
Fines		1 703 645	1 684 617
Licences and permits		11 648 818	11 492 586
Government grants & subsidies	25	254 267 868	246 447 932
Other income		39 834 161	15 670 734
Interest received - investment	21	17 730 048	13 102 273
Total Revenue		**582 711 602**	**507 498 209**
Expenditure			
Personnel	27	(172 810 128)	(174 607 220)
Remuneration of councillors	28	(16 799 647)	(16 137 982)
Depreciation and amortisation	30	(122 752 292)	(93 654 834)
Impairment loss		(54 814 951)	-
Finance costs	22	(7 531 535)	(7 572 386)
Provision for doubtful debts	29	(46 500 702)	(108 530 043)
Bulk purchases	32	(141 762 394)	(109 661 548)
General Expenses	26	(176 783 823)	(103 247 659)
Total Expenditure		**(739 755 472)**	**(613 411 672)**
Deficit for the year		**(157 043 870)**	**(105 913 463)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated Surplus	Total net assets
Balance at 01 July 2010	**265 198 278**	**778 540 944**	**1 043 739 222**
Changes in net assets			
Deficit for the year	-	(105 913 463)	(105 913 463)
Revaluation reserve	469 954 745	-	469 954 745
Transfer from the revaluation reserve to accumulated surplus	(79 829 823)	79 829 823	-
Total changes	390 124 922	(26 083 640)	364 041 282
Balance at 01 July 2011	**655 323 200**	**785 576 084**	**1 440 899 284**
Changes in net assets			
Deficit for the year	-	(157 043 870)	(157 043 870)
Total changes	316 527 338	(157 043 870)	159 483 468
Balance at 30 June 2012	**971 850 538**	**628 532 214**	**1 600 382 752**
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Cash Flow Statement

Figures in Rand	Note	2012	2011
Cash flows from operating activities			
Receipts			
Property rates		34 836 428	32 108 480
Sale of goods and services		227 483 852	238 954 706
Grants		264 679 001	235 129 210
Interest income		17 730 048	13 102 273
Other receipts		33 245 864	15 670 734
		577 975 193	534 965 403
Payments			
Employee costs		(173 030 398)	(172 108 315)
Remuneration of council		(9 141 256)	(16 137 982)
Finance costs		(2 333 442)	(7 572 379)
Payment to suppliers		(365 186 568)	(265 894 028)
		(549 691 664)	(461 712 704)
Net cash flows from operating activities	35	**28 283 529**	**73 252 699**
Cash flows from investing activities			
Purchase of property plant and equipment	9	(73 138 143)	(166 675 182)
Increase of finance lease liability	9	45 056 547	-
Non-cash purchases of assets		62 840 802	63 393 902
Net cash flows from investing activities		**34 759 206**	**(103 281 280)**
Cash flows from financing activities			
Repayment of borrowings		(2 624 900)	359 734
Movement in current portion of receivables		31 462	-
Finance lease liabilty (asset)		(33 263 583)	1 867 536
Increase in consumer deposits		1 101 291	1 040 885
Other cash flow item		(32 195 973)	-
Net cash flows from financing activities		**(66 951 703)**	**3 268 155**
Net increase/(decrease) in cash and cash equivalents		**(3 908 968)**	**(26 760 426)**
Cash and cash equivalents at the beginning of the year		(2 313 602)	24 446 824
Cash and cash equivalents at the end of the year	7	**(6 222 570)**	**(2 313 602)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition assets are tested on annual basis for impairment purposes.Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

1.2 Transfer of functions between entities under common control (continued)

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Current year service costs, interest expense / income and acturial gains and losses are recognised in the statement of financial perfomance.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

A provision for doubtful debts impairment movement is recognised in surplus and deficit, when there is objective evidence that it is impaired. The provision for impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. Doubtful debts are written off through the reduction of the provision for doubtful debts impairment account.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Accounting Policies

1.3 Investment property (continued)

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

1.4 Property plant and equipment

Property plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property plant and equipment is initially measured at cost.

The cost of an item of property plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property plant and equipment have different useful lives, they are accounted for as separate items (major components) of property plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Accounting Policies

1.4 Property plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Other vehicles	5-10 years
Furniture and fixtures	7-14 years
Specilised vehicles	10 years
Office equipment	7-14 years
Computer equipment	3-6 years
Finance lease assets	
• Office equipment	7-14 years
• Other assets	5 years
Infrastructure	
• Roads and Paving	30 years
• Pedestrian Malls	30 years
• Electricity	30 years
• Water	20 years
• Swerage	30 years
Community	
• Buildings	30 years
• Recreational Facilities	30 years
• Security	5 years
• Halls	
• Libraries	20 years
• Parks and gardens	15 years
• Other assets	7-14 years
Watercraft	15 years
Bins and containers	5 years
Specialised plant and equipment	10 years
Other items of plant and equipment	5 years
Landfill sites	5 years
Emergency equipment	10 years
Heritage assets	
• Buildings	30 years
• Painting and airfacts	7 years

The residual value, and the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

Accounting Policies

1.4 Property plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.6 Financial instruments

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Impairment of financial assets

The municipality assesses at each statement of financial position(increase/decrease) date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Accounting Policies

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position(increase/decrease) at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position(increase/decrease) as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position(increase/decrease) represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.11 Provisions

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Accounting Policies

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.17 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies

1.19 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Revaluation reserve

The surplus arising from the revaluation of property plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.21 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.24 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 21 Impairment of non-cash-generating assets
- GRAP 23 Revenue from non-exchange transactions (Taxes and transfers)
- GRAP 24 Presentation of budget information in financial statements
- GRAP 25 Employee benefits
- GRAP 26 Impairment of cash-generating assets
- GRAP 103 Heritage assets
- GRAP 104 Financial instruments

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Inventories

Inventories	3 558 629	4 551 282

3. Current portion of receivables

Car loans		
At beginning of the year	31 462	31 462
Repayments in the current year	(31 462)	-
	-	**31 462**

Senior staff were entitled to car loans up to 30 June 2005 which attracted interest at 8% per annum and these loans were repaid in full in the current year.

4. Receivables from exchange transactions

Trade receivables from exchange transactions	46 780 971	26 009 282

Trade receivables as at 30 June 2012	Gross Balances	Provision for Doubtful Debts	Net Balance
Service debtors			
Rates	39 831 963	(34 653 407)	5 178 556
Electricity	58 221 069	(30 903 132)	27 317 938
Water			
Sewerage	-	-	-
Refuse	15 329 913	(14 002 399)	1 327 514
Other services	76 765 025	(63 809 197)	12 955 828
	190 147 971	**(143 368 135)**	**46 780 977**

Trade receivables as at 30 June 2011	Gross Balances	Provision for Doubtful Debts	Net Balance
Service debtors			
Rates	31 538 539	(28 740 634)	2 797 905
Electricity	47 673 413	(31 736 318)	15 937 095
Water	-	-	-
Sewerage	-	-	-
Refuse	13 953 128	(13 171 567)	78 561
Other services	61 742 458	(55 249 767)	6 492 691
	154 907 538	**(128 898 286)**	**26 009 252**

There is no material difference between the fair value of trade and other receivables and their book value.

5. Other receivables from non-exchange transactions

Other debtors	18 743 869	19 903 210
Vhembe District:Water Transaction	52 036 411	43 896 327
	70 780 280	**63 799 537**

There is no material difference between the fair value of other receivables from non exchange transactions and their book value.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Prepayments

The prepayments are paid for DBSA loan, the loan is unsecured, bears interest at 9.86% and is repayable on 31 March 2018.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Call account	1 998	34 190
cash on hand	13 200	1 700
Bank overdraft	(6 237 768)	(2 349 492)
	(6 222 570)	**(2 313 602)**
Current assets	15 198	35 890
Current liabilities	(6 237 768)	(2 349 492)
	(6 222 570)	**(2 313 602)**

There is no material difference between the fair value of cash and cash equivalents and their book value.

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2012	30 June 2011	30 June 2010	Cash book balances 30 June 2012	30 June 2011	30 June 2010
ABSA BANK - CURRENT ACCOUNT - 406-378-2281	-	128 733	128 296	-	128 733	128 296
ABSA BANK - CURRENT ACCOUNT - 1000-000-147	-	4 828 095	-	-	(2 478 225)	-
ABSA BANK - CALL ACCOUNT - 906-905-2425	-	34 190	-	-	35 891	38 880 956
FNB BANK - CURRENT ACCOUNT - 623-0832-9988	766 434	-	-	(6 224 568)	-	-
FNB BANK - INVESTMENT ACCOUNT - 623-0833-0779	1 000	-	-	1 998	-	-
Total	**767 434**	**4 991 018**	**128 296**	**(6 222 570)**	**(2 313 601)**	**39 009 252**

8. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	52 491 463	(104 638)	52 386 825	754 718	(149 965)	604 753

Reconciliation of investment property - 2012

	Opening balance	Revaluations	Total
Investment property	604 753	51 782 072	52 386 825

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	754 718	(149 965)	604 753

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Property plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	324 744 101	(12 433 930)	312 310 171	183 743 277	(7 817 412)	175 925 865
Infrastructure	1 767 926 402	(437 576 696)	1 330 349 706	1 594 915 771	(306 192 899)	1 288 722 872
Community	35 087 387	(9 595 507)	25 491 880	75 383 092	(10 215 455)	65 167 637
Other assets	48 039 404	(21 198 585)	26 840 819	44 197 312	(20 622 104)	23 575 208
Finance lease assets	37 302 265	(12 282 016)	25 020 249	66 961 639	(15 745 365)	51 216 274
Total	**2 213 099 559**	**(493 086 734)**	**1 720 012 825**	**1 965 201 091**	**(360 593 235)**	**1 604 607 856**

9. Property plant and equipment (continued)

Reconciliation of property plant and equipment - 2012

	Opening balance	Additions	Additions under construction	Disposals	Revaluations	Depreciation	Impairment loss	Total
Land and Buildings	175 925 865	567 500	184 620	-	139 220 474	(2 074 822)	(1 513 466)	312 310 171
Infrastructure	1 288 722 872	23 863 009	40 743 146	(21 826 082)	154 505 804	(107 858 602)	(47 800 441)	1 330 349 706
Community	65 167 637	2 344 637	3 129 264	-	(38 831 451)	(1 184 103)	(5 134 104)	25 491 880
Other assets	23 575 208	2 305 967	-	(2 963 225)	9 850 437	(5 560 632)	(366 936)	26 840 819
Finance lease assets	51 216 274	-	-	(20 267 240)	-	(5 928 785)	-	25 020 249
	1 604 607 856	**29 081 113**	**44 057 030**	**(45 056 547)**	**264 745 264**	**(122 606 944)**	**(54 814 947)**	**1 720 012 825**

9. Property plant and equipment (continued)

Reconciliation of property plant and equipment - 2011

	Opening balance	Additions	Additions under construction	Revaluations	Depreciation	Total
Land and Buildings	171 474 925	7 419 523	4 848 829	-	(7 817 412)	175 925 865
Infrastructure	757 968 301	97 182 278	44 658 597	469 954 745	(81 041 049)	1 288 722 872
Community	63 137 267	2 186 880	18 414	-	(174 924)	65 167 637
Other assets	18 236 487	9 686 650	-	-	(4 347 929)	23 575 208
Finance lease assets	57 156 365	674 011	-	-	(6 614 102)	51 216 274
	1 067 973 345	**117 149 342**	**49 525 840**	**469 954 745**	**(99 995 416)**	**1 604 607 856**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	41 849	(20 942)	20 907	41 849	(13 962)	27 887

Figures in Rand	2012	2011

10. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Armotisation	Total
Intangible assets	27 887	(6 980)	20 907

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Intangible assets	41 849	(13 962)	27 887

11. Borrowings

	2012	2011
Annuity loans		
INCA The loan is unsecured, bears interest at 11.47% and is repayable on 30 June 2014.	3 828 081	5 443 435
DBSA loan 1 The loan is unsecured, bears interest at 9.86% and is repayable on 31 March 2018.	6 192 434	6 918 209
DBSA loan 2 The loan is unsecured, bears interest at 5% and is repayable on 31 March 2018.	2 032 759	2 316 530
	12 053 274	**14 678 174**

	2012	2011
Non-current liabilities At amortised cost	10 245 861	13 062 819
Current liabilities At amortised cost	1 807 413	1 615 355
	12 053 274	**14 678 174**

There is no material difference between the fair value of the borrowings and their book value.

Refer to Appendix A for more detail on borrowings.

12. Finance lease liability

	2012	2011
Minimum lease payments due		
- within one year	5 398 224	3 463 437
- in second to fifth year inclusive	28 748 206	58 748 484
Present value of minimum lease payments	**34 146 430**	**62 211 921**
Non-current liabilities	28 748 206	58 748 483
Current liabilities	5 398 224	3 463 437
	34 146 430	**62 211 920**

The average lease term is 10 years and the average effective borrowing rate is 9.50%. Interest rates are fixed at the contract date.Some leases have fixed terms and escalate between 6% and 10% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

Figures in Rand	2012	2011

13. Payables from exchange transactions

Trade creditors	63 958 360	189 676
Accruals	46 114 870	38 893 715
Retentions	7 149 501	9 724 385
Debtors with credit balances	9 068 034	5 544 692
Other creditors	3 619 232	21 423 018
Water Transactions suspense account	20 156 118	58 487 113
Leave accrual	10 958 590	14 652 270
	161 024 705	**148 914 869**

There is no material difference between the fair value of payables from exchange transactions and their book value.

14. VAT payable

VAT payable	10 804 333	8 729 996

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

15. Current portion of unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	27 414 583	13 977 364
INEP	2 610 551	2 610 474
Dwaf payments	2 567 495	2 567 495
VDM electrification grant	1 297 297	2 387 698
Finance management grant	993 454	1 573 179
Municipal systems improvement grant	533 976	543 979
PHP grant	414 495	421 216
Department of Sports, Arts and Culture grant	207 369	207 369
VDM refuse removal truck	56 418	56 418
Drought relief grant	33 801	33 801
VDM graveyards grant	645	645
	36 130 084	**24 379 638**

Movement during the year

Balance at the beginning of the year	24 379 639	35 698 352
Movement	11 750 445	(11 318 714)
	36 130 084	**24 379 638**

See note 22 for reconciliation of grants and receipt. These amounts are invested in a ring-fenced investment until utilised.

16. Consumer deposits

Consumer deposits

Electricity	10 087 699	8 986 408

Guarantees held in lieu of consumer deposits.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Employee benefit obligations

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	11 704 626	10 980 175
Current services cost	1 531 234	1 344 704
Interest cost	828 184	838 498
Acturial (Gain)/Loss	-	(21 422)
Expected Employer Benefit	(1 832 185)	(1 437 329)
	12 231 859	**11 704 626**

18. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Movement	Total
Rehabilitation of landfill site	5 051 505	372 447	5 423 952
Provision for bonuses Section 57 Managers	-	492 856	492 856
Provision for bonuses 13th Cheque	4 878 689	(272 586)	4 606 103
	9 930 194	**592 717**	**10 522 911**

Reconciliation of provisions - 2011

	Opening Balance	Movement	Total
Rehabilitation of landfill site	4 592 277	459 228	5 051 505
Provision for bonuses 13th Cheque	4 194 702	683 987	4 878 689
	8 786 979	**1 143 215**	**9 930 194**

Non-current liabilities	5 423 952	5 051 505
Current liabilities	5 098 959	4 878 689
	10 522 911	**9 930 194**

Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of future obligation, discounted at prime interest rate of 8.5% over an estimated useful life of 1 year. Rehabilitation cost is assumed to increase at inflation rate of 7.10%. The payment of expenditures relating to rehabilitation is expected to occur after the 30th June 2013.

19. Revenue

Property rates	34 836 428	32 108 479
Service charges	222 333 139	186 682 562
Rental of facilities & equipment	357 495	309 026
Fines	1 703 645	1 684 617
Licences and permits	11 648 818	11 492 586
Government grants & subsidies	254 267 868	246 447 932
	525 147 393	**478 725 202**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	222 333 139	186 682 562
Rental of facilities & equipment	357 495	309 026
Licences and permits	11 648 818	11 492 586
	234 339 452	**198 484 174**

The amount included in revenue arising from non-exchange transactions is as follows:		
Non taxable revenue		
Property rates	34 836 428	32 108 479
Fines	1 703 645	1 684 617
Non taxable revenue		
Government grants	254 267 868	246 447 932
	290 807 941	**280 241 028**

20. Other income

Other income	39 834 161	15 670 734

21. Investment revenue

Interest revenue		
Interest receivables	16 694 669	10 213 885
Bank	1 035 379	2 888 388
	17 730 048	**13 102 273**

22. Finance costs

Finance lease	5 198 093	6 035 114
Borrowing	1 505 258	1 537 272
Interest paid on employee benefits	828 184	-
	7 531 535	**7 572 386**

23. Property rates

Rates received

Residential	23 672 812	22 102 050
Commercial	8 957 004	8 132 710
State	2 206 612	1 873 719
	34 836 428	**32 108 479**

24. Service charges

Sale of electricity	214 786 478	178 195 000
Sale of water	-	1 201 348
Sewerage and sanitation charges	-	167 094
Refuse removal	7 546 661	7 119 120
	222 333 139	**186 682 562**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Government grants and subsidies

Equitable share	203 577 000	185 483 067
Other Government Grants and Subsidies	7 226 774	16 187 807
Municipal Infrastructure Grant (MIG)	42 124 781	44 777 058
Grant received from the district muncipality	1 339 313	-
	254 267 868	**246 447 932**

26. General expenses

Advertising	325 051	231 048
Auditors remuneration	5 469 199	3 522 093
Bank charges	894 423	923 027
Water transactions write off	29 800 973	345 353
Legal fees	8 194 442	3 268 263
Stocks and material	1 845 761	1 942 898
Transport claims	24 527	84 730
Insurance	1 960 957	1 282 018
Computer expenses	29 264	-
Office rentals	139 975	-
Skills development levies	1 459 521	1 456 082
Fuel and oil	7 532 493	7 690 413
Postage	39 082	559 761
Printing and stationery	2 819 772	2 735 274
Repairs and maintenance	19 849 954	25 463 738
Licence fees-vehicles	281 422	273 031
Security costs	12 137 193	8 927 636
Membership fees	563 796	1 304 222
Telephone cost	2 374 717	1 770 613
Training	1 575 323	2 597 855
Travel and subsistence	1 914 996	2 256 238
Loss on disposal of assets	24 788 807	-
Uniforms and overalls	667 871	161 221
Indigent policy	5 987 210	5 805 447
Subscription & publication	3 347 971	2 933 700
Departmental consumption	533 932	635 161
Non-asset items	21 739 684	8 214 849
Dumping site	493 086	459 228
Other expenses	19 992 421	18 403 760
	176 783 823	**103 247 659**

Figures in Rand	2012	2011

27. Employee related costs

Employee related costs- Salaries and Wages	115 417 973	106 521 750
Perfomance and other bonuses	(1 534 832)	9 220 466
Employee related costs- Medical aid	9 152 224	7 752 931
UIF	1 024 278	983 307
Bargaining Council Levies	41 347	40 692
Other employee related costs	(1 890 249)	3 726 613
Post-employment benefits - Pension - Defined contribution plan	24 871 947	23 004 778
Travel, motor car, accommodation, subsistence and other allowances	7 036 680	6 026 856
Overtime payments	15 180 374	14 905 491
Long-service awards	1 531 234	724 442
Housing benefits and allowances	218 054	172 369
Standby allowance	1 369 301	1 183 216
Group life insurance	391 797	344 309
	172 810 128	**174 607 220**

Remuneration of municipal manager

Annual Remuneration	487 333	611 268
Contributions to UIF, Medical and Pension Funds	62 040	424 783
Travel, motor car, accommodation, subsistance and other allowance	324 951	75 327
	874 324	**1 111 378**

Remuneration of chief finance officer

Annual Remuneration	337 144	471 314
Contributions to UIF, Medical and Pension Funds	70 972	97 725
Travel, motor car, accommodation, subsistance and other allowances	162 668	230 335
Other-Backpay	100 253	-
	671 037	**799 374**

Remuneration of director technical services

Annual Remuneration	473 996	441 748
Contributions to UIF, Medical and Pension Funds	96 258	83 576
Travel, motor car, accommodation, subsistance and other allowances	262 254	230 335
	832 508	**755 659**

Remuneration of director corporate services

Annual Remuneration	465 761	434 074
Contributions to UIF, Medical and Pension Funds	86 925	78 907
Travel, motor car, accommodation, subsistance and other allowances	237 052	292 931
	789 738	**805 912**

Remuneration of director planning and development

Annual Remuneration	465 761	434 074
Contributions to UIF, Medical and Pension Funds	59 718	53 925
Travel, motor car, accommodation, subsistance and other allowances	265 699	254 248
	791 178	**742 247**

Figures in Rand	2012	2011

27. Employee related costs (continued)

Remuneration of director community services

Annual Remuneration	465 761	434 074
Performance Bonuses	84 120	-
Contributions to UIF, Medical and Pension Funds	59 718	53 925
Travel, motor car, accommodation, subsistance and other allowances	306 758	274 806
	916 357	**762 805**

28. Remuneration of councillors

Mayor	637 103	408 292
Speaker	516 556	487 000
Councillors	15 645 988	15 242 690
	16 799 647	**16 137 982**

In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor has the use of a Council owned vehicle for official duties.

29. Provision for doubtful debts

Provision for doubtful debts	46 500 702	108 530 043

30. Depreciation and amortisation

Property plant and equipment	122 752 292	93 654 834

31. Auditor's remuneration

Fees	5 469 199	3 522 093

32. Bulk purchases

Electricity	141 762 394	109 661 548

Included in the electricity bulk purchases is the 14% which relate to distribution losses. Makhado Municipality gets billed by Eskom on monthly basis for electricity used/or given to Makhado based on readings. Therefore the amount paid to/billed by Eskom includes the electricity losses and the losses were R19 846 735 (2011: R15 352 617).

33. Fruitless and wasteful expenditure

Opening balance	930 235	-
Fruitless expenditure current year	170 396	34 735
Other: Lease administration fee	-	895 500
Approved by council or condoned	(197 768)	-
	902 863	**930 235**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Irregular expenditure

	2012	2011
Opening balance	25 547 359	-
Add: Irregular Expenditure - current year	-	821 257
Conditional grants used for operational purposes	33 169 661	24 702 467
Deviations	10 414 888	23 635
Approved by council or condoned	(27 253 814)	-
	41 878 094	**25 547 359**

Analysis of expenditure awaiting condonation per age classification

	2012	2011
Current year	41 878 094	-

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Unspent conditional garnts as per DORA allocations not cashbacked.	Municipal Infrastructure gant	27 414 583
	Intergrated National Electrification Programme(INEP)	2 610 551
	Finance Management Grant(FMG)	2 610 551
	Municipal System Improvement Grant(MSIG)	533 976
Deviations from Supply Chain Prescripts		10 414 888
		43 584 549

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Contract above R200,000.00 procured through quotation processes	Appointment of service provider to compile Grap Compliant asset register through quotations. It was impractical to follow tender processes due to time constraints as the decision to embark on this project was taken in March 2012.	1 706 455

35. Cash generated from operations

	2012	2011
Deficit	(157 043 870)	(105 913 463)
Adjustments for:		
Depreciation and amortisation	122 752 292	93 654 834
Finance costs - Finance lease	7 531 535	-
Impairment deficit	54 814 951	-
Provision for doubtful debts	46 500 702	108 530 043
Movements in retirement benefit assets and liabilities	527 233	-
Movements in provisions	592 717	2 958 131
Changes in working capital:		
Inventories	992 653	(1 896 220)
Receivables from exchange transactions	(20 771 687)	67 696 160
Other receivables from non-exchange transactions	(6 980 743)	(27 014 021)
Consumer debtors	(46 500 702)	(108 530 043)
Prepayments	(66 171)	-
Payables from exchange transactions	12 109 836	55 033 610
VAT	2 074 337	52 381
Current portion of unspent conditional grants and receipts	11 750 446	(11 318 713)
	28 283 529	**73 252 699**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	520 996	-
Current year subscriptions	1 633 296	1 811 261
Amount paid - current year	(1 633 296)	(1 290 265)
Amount paid - previous years	(520 996)	-
	-	**520 996**

Audit fees

Current year audit fee	5 469 199	3 522 093
Amount paid - current year	(5 469 199)	(3 522 093)
	-	-

PAYE and UIF

Current year payroll deductions	25 497 575	23 807 742
Amount paid - current year	(25 497 575)	(23 807 742)
	-	-

Pension and Medical Aid Deductions

Opening balance	-	92 433
Current year payroll deductions and Council Contributions	46 690 015	44 414 275
Amount paid - current year	(46 690 015)	(44 506 708)
	-	-

VAT

VAT payable	10 804 333	8 729 996

36. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Underwood JP	1 187	-	1 187
Jooma ZA	385	30 782	31 167
Nemafhohoni MG	234	995	1 229
Malange TM	1 761	-	1 761
Malima ME	279	2 981	3 260
Mathavha HF	335	4 070	4 405
Mathoma MP	246	3	249
Mamatsiara MS	123	-	123
Mukhari MF	56	1 060	1 116
Mahlalisa SV	500	12 910	13 410
Ahmed MO	3 507	-	3 507
Baloyi SR	460	16 059	16 519
Mutavhatsindi FD	131	-	131
Ngobeni NE	1 177	-	1 177
Mboyi MD	470	-	470
Selepe MR	1 916	-	1 916
Mboyi MD	427	5 568	5 995
Mashau TR	116	-	116
Kennealy A	3 139	8 295	11 434
	16 449	**82 723**	**99 172**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Gundula A.S	205	-	205
Nemalegeni PRJ	102	-	102
Mutavhatsindi FD	412	134	546
Maboho NK	124	-	124
Bopape MB	891	-	891
Kennealy A	163	1 223	1 386
Mboyi MD	911	2 462	3 373
Mudau TJ	794	5 728	6 522
Makananise MM	2 674	2 288	4 962
Selepe MR	4 431	-	4 431
	10 707	**11 835**	**22 542**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2012	Highest outstanding amount	Aging (in days)
Jooma ZA	30 782	150
Baloyi SR	17 882	150
	48 664	**300**

36. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2011	Highest outstanding amount	Aging (in days)
Makananise MM	6 513	90
Selepe MR	10 899	90
	17 412	**180**

37. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position(increase/decrease) to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 807 413	2 020 667	-	8 225 193
Trade and other payables	242 013 137	-	-	-
Finance lease lability	2 269 154	-	21 306 289	10 555 757

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 615 355	-	3 828 080	9 234 739
Trade and other payables	208 370 177	-	-	-
Finance lease liability	3 463 437	-	58 748 484	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Borrowings issued at fixed rates expose the municipality to fair value interest rate.

Development Bank of Southern Africa loans at an average rate of 7.47%.
INCA loan fixed at 11.47%

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2012	2011
Investment in ABSA Bank	-	34 190
Trade and other receivables	-	122 184 610

Figures in Rand	2012	2011

38. Capital commitments

Authorised capital expenditure

	2012	2011
Approved and contracted for		
• Infrastructure-Roads	6 636 673	16 427 019
• Infrastructure-Electricity Supply	8 665 085	8 033 321
• Other Infrastructure	-	121 586
• Community halls	3 152 149	-
	18 453 907	**24 581 926**

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, and existing cash resource.

39. Revaluation reserve

	2012	2011
Opening balance	655 325 337	265 200 415
Revaluation surplus/deficit	-	469 954 745
Movement for the year	316 525 201	(79 829 823)
	971 850 538	**655 325 337**

40. Fair value adjustments

41. Contingencies

Litigations is in process against the municipality relating to a dispute with a defendants in the following cases, should the judgment or the ruling be in favour of the defandants the municipality will have to pay the estimated damages as indicated:

1. Damages for faliure to pay for services rendered	R 1,320,000
2. Claim regarding loss of life involving the municipal infrustructure	R 2,005,000
3. Defendant made to pay more licence fees for his vehicle	R 19,318
4. Claim for breach of contract	R 6,369,750
5. Wronful and unlawful detention of defendant by municipal traffic officers	R 60,350

42. Prior period errors

The property plant and equipment were verified and unbundled during 2012 financial year and during the verification process there were assets that were identified and not included in the opening balances of the property pant and equipment.These assets were identified and property, plant and equipment restated prospectively through revaluation reserve. The supporting documentations for prior year balance relating to water expenditures incurred by the municipality were obtained and recalculated to support the prior year balance. The prior year balance was overstated and therefore water debtors account was adjusted.

The correction of the error(s) resulted in adjustments of the carrying values the following balances as indicated below:

	2012	2011
Property,plant and equipment(Increase/Decrease)		
Land and Buildings	144 013 257	-
Infrustructure assets	154 505 804	-
Community assets	(38 831 451)	-
Investment properties	51 782 072	-
Other assets	9 850 473	-
Trade and other payables		
Reduction of water debtors account	(8 178 932)	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

43. Comparative figures

The opening carrying values of property,plant and equipment have been reclassified during the year.The reclassification of opening balances of property,plant and equipment was mainly due to the fact that the entire municipal asset register was unbundled and assets physically verified resulting in assets classified into different categories based on the verification results. The process also resulted in correction of prior year error as reflected in note 46 above.

The effects of the reclassifications are as follows:

Statement of financial position(Increase/Decrease)

Land	-	157 847 899
Buildings	-	37 270 294
Land and Buildings	175 925 867	-
Infrustructure assets	1 288 722 872	1 319 440 840
Community assets	65 167 636	6 118 103
Other assets	23 418 913	33 347 086
Heritage assets	156 294	-
Intangible assets	27 886	-
Investment properties	604 753	-

44. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	36 698 798	34 654 199	34 654 199	34 836 428	(182 229)	101 %	95 %
Service charges	267 324 485	243 841 686	243 841 686	222 333 139	21 508 547	91 %	83 %
Investment revenue	17 910 896	16 913 028	16 913 028	17 730 048	(817 020)	105 %	99 %
Transfers recognised - operational	244 734 000	209 117 000	209 117 000	212 143 087	(3 026 087)	101 %	87 %
Other own revenue	16 242 419	15 337 319	15 337 319	53 544 119	(38 206 800)	349 %	330 %
Total revenue (excluding capital transfers and contributions)	**582 910 598**	**519 863 232**	**519 863 232**	**540 586 821**	**(20 723 589)**	**104 %**	**93 %**
Employee costs	(176 536 933)	(179 396 127)	(179 396 127)	(172 810 128)	(6 585 999)	96 %	98 %
Remuneration of councillors	(17 172 482)	(15 710 737)	(15 710 737)	(16 799 647)	1 088 910	107 %	98 %
Debt impairment	(8 762 270)	(10 800 000)	(10 800 000)	(46 500 702)	35 700 702	431 %	531 %
Depreciation and asset impairment	(60 000 000)	(62 000 000)	(62 000 000)	(177 567 243)	115 567 243	286 %	296 %
Finance charges	(663 486)	(629 494)	(629 494)	(7 531 535)	6 902 041	1 196 %	1 135 %
Materials and bulk purchases	(149 787 068)	(131 451 984)	(131 451 984)	(141 762 394)	10 310 410	108 %	95 %
Other expenditure	(109 619 702)	(216 859 615)	(216 859 615)	(176 783 823)	(40 075 792)	82 %	161 %
Total expenditure	**(522 541 941)**	**(616 847 957)**	**(616 847 957)**	**(739 755 472)**	**122 907 515**	**120 %**	**142 %**
Surplus/(Deficit)	**60 368 657**	**(96 984 725)**	**(96 984 725)**	**(199 168 651)**	**102 183 926**	**205 %**	**(330)%**

44. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	67 400 000	55 562 000	55 562 000	42 124 781	13 437 219	76 %	62 %
Surplus (Deficit) after capital transfers and contributions	**127 768 657**	**(41 422 725)**	**(41 422 725)**	**(157 043 870)**	**115 621 145**	**379 %**	**(123)%**
Surplus/(Deficit) for the year	**127 768 657**	**(41 422 725)**	**(41 422 725)**	**(157 043 870)**	**115 621 145**	**379 %**	**(123)%**